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# WORKAID

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## Social Audit

A Management Tool for Co-operative Working  
1981

Freer Spreckley

Published by Beechwood College

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UK

# Introduction

A successful business is undoubtedly good news. What is not so clear is what constitutes success.

Normally a business is held responsible to its share holders and the degree of success is monitored by the amount of dividends paid out at the year's end. There have been a few attempts at introducing other criteria for measuring business success, but these have met with the argument that taking humanitarian and social factors into account means a less competitive – therefore vulnerable – company. And that in a period of recession we cannot afford to take into account extra-traditional considerations. However, such companies can give rise to social and environmental costs which are not recorded on the balance sheet as a business cost. These costs are borne by the workers and the wider community whilst not reflecting on the ostensible 'success' of the company. Narrow financial definitions of business success, have not, so far, been successfully challenged.

This shortsighted 'monetarist' ethic is gaining 'clout' with the backing of the Thatcher government. However, at the grass roots level business based on co-operative ideals are springing up which demand systems of accounting based on broader criteria than mere money.

Deciding success and failure is a crucial debate in this network of 'workers' co-operatives and the question arises as to whether an accounting system which can incorporate into its calculations such concepts, as job satisfaction, benefit to the local community, and the quality and social influence of its products can be

Superficially considered, it seems that to introduce some form of social audit into co-operatives might be to add another burden to an already strained situation. After all the co-operatives have to operate in the 'market place' an institution developed and operated on the principle of profit maximisation and laissez-faire competition. Thus, a company which concerns itself with deeper values and imposes moral constraints upon itself must be at a disadvantage. By the same token to attempt a co-operative business on the narrow material criteria is to remove all validity from the exercise. The lack of other clearly committed aims leaves the co-operative without any social direction or achievement.

An enterprise that is owned by those who work in it and perhaps reside in a given locality, is governed by registered social as well as commercial aims and objectives and run co-operatively may be termed a social enterprise. Traditionally, 'capital hires labour' with an overriding emphasis on making a 'profit' over and above any benefits either to the business itself or the workforce. Contrasted to this is the social enterprise where 'labour hires capital' with the emphasis on personal and social 'liberation' from exploitation by capital.

Inherent in the economic system presided by the financial ethic 'the more money you've got the better you are' is a one dimensional attitude for evaluating and understanding the viability of an enterprise, whether private or social the 'ethic' remains the same. In a social enterprise where financial and social objectives are integrated this one-dimensional attitude is inadequate and unsatisfactory. But the difficulty and hostility one is likely to face in getting a different yardstick accepted must not be underestimated. The power of capital and the pressure it imposes on society to conform, in ways frequently unrecognisable and seemingly harmless, to its one-dimensional quest for ever higher profits pervades every corner of our society.

In broad terms there are two resolves: either the enterprise subordinates its social aspirations in favour of concentrating on financial viability and agrees tacitly to operate within the milieu of a capitalist mentality, or it further extends its own power and responsibility to develop new values and criteria. Criteria which can measure social performance in terms of benefit or loss to the working members, the local community and the wider community.

It is claimed that we are in the trough of a bad recession – a cyclic problem of a market system – though I suspect it is more the end of an era that has proved unable to fulfil its overt promises of full employment, growth and prosperity. The industrial revolution has not fulfilled its promise of social and economic equality, rather it has continued a 'system of inequality' which to some extent owes its survival to the 'means' we use to measure and value both individual and corporate performance. Today people in Britain can legitimately talk about "poverty amidst a land of plenty" as an acceptable social mode of economic operation.

As we do take new directions it will not be because of wise and caring leadership but because of the sheer cost of the present industrial system. Some form of social audit will need to be included in new ways of organising the economy. The value system upheld by industrial wealth will have to change in favour of social and personal needs. In purely economic terms new definitions of viability based on new forms of collective ownership, levels of turnover and environmental planning will need exploring. The relationship between individual and the

collective will need careful and wise dialogue and analysis. Identification of socially useful production will require a fresh approach to market research based on need rather than what might be saleable.

Though goal setting and collective aims are essential, the 'means' by which these are carried out are in themselves essential elements in re-orientating the production and service process towards social values. All too often the long term 'aims' are used to justify short term 'means' which inevitably undermine the original 'aims'. This inconsistency between 'aims' and 'means' is neither novel nor rare, it happens regularly in many situations, indeed, the present argument in favour of nuclear bombs is incredulous to the point, and it is the most damaging duality in political and economic practice. Consistency of aims and means need not be rigidly applied irrespective of changing circumstances. In social enterprises there is a healthy tendency towards the unity of ends and means. An equitable and satisfying work arrangement can be itself one of the aims.

Quite clearly then social enterprises are very different from private business, yet the criteria and procedure for assessing their viability are at present the same.

In this booklet we hope to be able to show that the reason co-operatives, the major form of social enterprise, have failed in 400 years to gain any sizeable foothold in the economy is primarily due to the incompatibility between the social aspirations of its workers and the dominance of the economic system within which they are compelled to operate. Throughout their history the strategy adopted has been to 'graft' co-operatives onto an existing economic system without any serious attempt at solving the problem of relating to the dominant economy.

For social enterprises to develop consistent aims it is necessary to establish methods of evaluating their progress in general including regular social guidance procedures to complement the financial guidance audit. In advancing the idea of new 'viability criteria' the broader economic situation has to be taken into account alongside a critical look at the accounting techniques. This booklet deals with these issues and proposes that social enterprises adopt their own forms of evaluation through a suggested 'social enterprise audit'.

# Historical Background

Social Enterprises and Co-operative forms of activity go back to the early social struggles of the English revolution when in 1649 Gerrard Winstanley was expressing the idea with remarkable force and clarity. The groups styled the Diggers put the thinking into practice by taking over waste land and cultivating it in common. The Diggers did more than dream up the idea of allotments, they also organised themselves around the idea of one person one vote, equal distribution of wealth and balanced social and commercial needs. This first experiment in co-operative forms of organisation established the idea of integrating social and commercial activities as a viable proposition. What the Diggers lacked was ownership of the land they had taken over and thus they were eventually driven off.

Ten years later in 1659 a Dutchman called Peter Cornelius who was living in Southampton at the time, produced a clear vision of how production could be organised in a way which was democratic and socially orientated. And in his booklet 'A Way Propounded' he firmly stated the need for new forms of ownership if anything was to come of the then new ideas of democracy. He proposed that there should be common ownership over land and certain commercial activities.

Much later on Co-operative forms of organisation began to appear; the first recorded association of workers taking on control of a commercial enterprise was in the late 1700's when a group of unemployed workers in Woolwich took over the running of a mill, in 1830 a number of unemployed millers in Hull also got together and took over the operation of an old mill in the centre of town to provide flour for their families and other members of the community who were in need. As with the Diggers two centuries earlier their aims were more social than profit orientated, but like the diggers they did not own the mill and were finally moved out.

As capitalism gained ascendancy pioneers such as Robert Owen (1771-1858) influenced the newly formed trades unions to favour the establishment of an alternative means of organising society. Rather than engage in a political and revolutionary overthrow of the existing social system, Owen urged the working classes to set up groups of producers with common ownership of the means of production. Such co-operative producers would, by exchanging products on the basis of the labour value employed in manufacture, demonstrate a new order of society which would be feasible and morally superior. The property-owning classes, the argument ran, would realise they had outlived their historical moment and join the new social order.

Robert Owen was both a successful business manager and a great humanitarian setting into practice such ideas as education for all, better working conditions, distribution of the collective wealth to those who produced it, free medical treatment, and perhaps most striking of all is that to this day we have not reduced the working hours much since Owen reduced them in his factories from 80 to 50 a week in the early 1800's. He believed that through socialising commercial activities one person's gain would not be another person's loss. He advocated the idea of co-operative not solely for commercial purposes but as social enterprises reaching out to the community and integrating community and commercial values. Owen's ideas were extremely popular. As a result many co-operative societies and shops were founded, "Labour exchanges" were set up to market the goods, and the concept of socialism was developed where co-operatives would become the dominant mode of organisation. In 1834 the Grand National Consolidated Trade Union was formed as an intended instrument of working class control of a co-operative economy, a part of a strategy for abolishing political power based upon private property. Half a million workers joined the union in a matter of weeks, being mainly unskilled, poor labourers attracted by Owen and his followers. Local and sectional strikes broke out rapidly before any real attempt was made to put co-operative ideas to a practical test. These met with a repressive response from the property owners or Whigs, of which the deportation of six labourers from Tolpuddle in Dorset has become the classic example. In disillusionment the workers turned away from the immediate aim of social change by their own unaided efforts in favour of extracting power from Parliament to improve their lot. Led by William Lovett (1800 – 1871) the centre of this movement was the London Working Men's Association the aim of which was to "seek by every legal means to place all classes of society in possession of equal political and social rights". To this end a People's Charter was drawn up which represented the first demand for political power through reform of Parliament (and through this institution the broader social system) formulated by working people.

Practical experience of productive co-operatives as an organisation was, therefore, very limited, being centred mainly on Owen's new Lanark factories, and a few hundred productive co-operatives, most of them were short lived due to the general lack of finance to purchase machinery and property.

Also it must be noted that within the co-operative movement there raged a fierce debate on whether the movement should adopt workers' control or consumer control as its main platform of development. Unfortunately, little attention was paid to the idea of developing both strands simultaneously. Finally the consumer part of the movement won the day on the grounds that democracy through consumer sovereignty would be a more effective tool for converting the economy to co-operative and social principles than productive co-operatives, where only

the worker had control, though there remained still a hard core of followers to the ideas of productive co-operatives. The experience of the Rochdale Society of Equitable Pioneers (1844) though of great importance was mainly limited to the consumer side. The Rochdale Pioneers extended their influence beyond the immediate consumer to the wider interests of the community, the ideas on democratic management and voting rights was part of their doctrine and many of the areas of the welfare state were originally inspired from the co-operative societies and promulgated through their free meeting halls.

The growth of both producer and consumer co-operatives continued to flourish well into the late 1800's and early 1900's and for some years it was still not absolutely clear if the movement would embrace both or go one way or the other. But finally the consumer movement won the day, but not without bitter struggles and many still unanswered questions.

Marx himself praised "the co-operative movement, especially the co-operative factories raised by the unassisted efforts of a few bold hands". While observing that "the value of these social experiments cannot be over-rated" he also cautioned that "if kept within the narrow circle of the casual effort of private workmen" co-operative labour would not be able to break capitalist monopolies, free the masses or reduce their misery. The need was for the movement to be developed to "national dimensions, and consequently be fostered by national means", which necessitated the conquest of political power by the working classes. Engels observed, with approval, that the Paris Commune "instituted an organisation of large scale industry and even manufacture which was not only to be based on the associations in one great union". Both Marx and Engels throughout their writings defined their idea of a socialist system as "a society composed of association of free and equal producers" a definition which in principle would apply without any difficulty to collectively-owned enterprises.

There emerged at this time the creation of a new working class institution: the Trade Unions became the predominant influence and appeared in some strength and after a long period won full recognition for their ideas on nationalism of industry. This form of large scale socialism suited them better than trying to organise many small co-operatives scattered unevenly across the land. But the unions did not, however, lose sight of the ideals of co-operation as an aspiration. The rules of many of the largest unions contain references to their sympathy for the principles of common ownership, self management, co-operation, participation, etc... For example, the Amalgamated Engineering Union's Rule 1 Objects includes "the control of industry in the interests of the community... the extension of co-operative production to assist in altering the competitive system of society for a co-operative system". Transport and General Workers' Union (the largest in Britain) Rule 2 Objects refer to the "extension of co-operative



production and distribution". In practice, however, the British trade union movement did very little to further these aims which have remained mere formal aspirations. Through the political wing of the labour movement the Labour Party adopted state ownership of the means of production and distribution and in effect reduced the co-operative movement to a position of marginal influence. Undoubtedly this policy owed much to the elitist influence of the Webbs, who rejected industrial co-operativism, as their research on productive co-operatives concluded that working people were unable to manage commercial affairs. Moreover, the generalised belief amongst both the union and political leadership that issues on production control, distribution of the surplus and employment investment could be better centrally resolved through planning all added to the loss of influence of the co-operative movement. And in 1918 when Sidney Webb drafted Clause 4 of the Labour Party constitution he called for the public ownership through state control of the means of production and distribution without any mention of how workers were to participate in this control. Nationalised industry has failed to achieve the objectives of "securing for the workers...the full fruits of industry" in any meaningful way and has also failed to come to grips with the urgent problems of the relationship between 'capital and labour' and 'management and worker', and has failed most of all in securing a fairer social system and a fairer distribution of income and wealth.

The seventies, however, have seen a greater awareness of the need to re-examine the assumptions behind the orthodox consensus and many in the Labour Movement have begun to re-examine possible roles for co-operative enterprises.

The seventies witnessed the unlikely and still rather shaky alliance of two different ideologies in developing the recent wave of interest in co-operative enterprises in Britain. Many people despaired at the thought of a new organisation, or network, for co-operatives without understanding why this had come about. The reasons are due to the age old problem of social progress, people need to get nearer the truth, the very existence for the traditional co-operative movement further highlights the need for progress and social change. The first major principle of the traditional co-operative movement is open membership to all on a voluntary basis. This, over time, has created a large membership that has become unwieldy and seemingly less relevant to the members until it has become difficult to participate. In the new co-operative enterprises based on collective forms of ownership by the workforces we have adopted a participatory principle which enforces a certain discipline on the size of the membership that will enable democratic management to operate effectively and allow direct access to all members in decision making. Consequently in the new co-operative we have restricted membership to workers only. This is in direct contrast to the traditional open and voluntary membership favoured by the co-operative movements of the 1800's.

The idea of workers' control is not new; but the practice is. During the sixties and seventies two different and independent groups began building up networks of worker controlled enterprises that set the scene for the recent growth in Worker's Co-operatives and Social Enterprises. Their common bond lay in the social commitment they had to balancing commercial viability with social responsibility.

One group started in 1951 when a strike at a factory in Northamptonshire persuaded Ernest Bader, the owner and an eminent Quaker Socialist, to convert his company into a democratic, and over a period of time, a common ownership company where workers exercise control over a rather traditional line management structure. The Scott Bader Commonwealth, as it is known, became the driving force behind the Industrial Common Ownership Movement (ICOM) which became a national, but small, body of Christian and libertarian socialists who presided over a rather paternal organisation helping new common ownership firms to get started. By 1974 there were 13 common ownership firms in existence registered with ICOM, modelled broadly on the Scott Bader system of common ownership. In 1976 ICOM drew up and registered a set of model rules which was to become widely used by groups wishing to set up worker controlled enterprises. The important thing about the model rules is that they allowed for easy access for groups without having to employ lawyers either to write a constitution or interpret the jargon, as the rules are simple enough to be understood. ICOM is also credited with a number of other initiatives not least stewarding a private members bill through parliament defining common ownership in law, the ICO Act.

The other network, or part of the shaky alliance, has its roots in the hippy movement of the sixties and early seventies. Where groups of people got together as unincorporated bodies and started trading, mainly in wholefoods and books, as collectives. Their principles were generally based in the rejectionist attitudes of the hippy movement, in particular the capitalist mode of enterprise and went to such lengths as to take an "anti profit stance" in writing up articles of association. In the early seventies these collectives outnumbered the more traditional common ownership firms by about three to one and both groups were ignorant of each other's existence. By far the biggest group, or network, of collectives were the Northern Federation of Wholefood Collectives (FNWC) whose members numbered around 40 separate wholefood collectives by 1976 in the North of England, there was also quite an extensive network of collective bookshops throughout Britain at this time.

The FNWC grew rapidly and by the summer of 1977 there were in the region of 60 wholefood trading collectives involved, a central warehouse in Leeds was established through planned purchasing agreements by the separate collectives,

and a research and information arm was created and funded by FNWC based at Lifespan community. It was also agreed by the member collectives of the FNWC that a 1% levy on turnover should be paid to a central fund to provide assistance to new collectives to acquire some kind of registered status in order to obtain limited liability and to protect the collective ownership against individual abuse. The set of model rules provided by ICOM offered the collectives an easy and acceptable constitutional form which suited their existing practice. ICOM at the time were in need of new member firms. Both networks gained from the mutual support, the FNWC gained access to easy registration and ICOM gained a respectable number of member firms, ICOM's membership grew from 13 in 1976 to about 50 by the following year. The FNWC, though disbanded in 1978, has had considerable influence in the style of co-operative management in Britain and has provided clearer political directions for a potential movement to emerge.

Though both the collectives and ICOM were able to share many similar ideas there remained, nonetheless, important differences that are still in evidence. This difference is to do with the style of management, and the degree of participation in day to day matters; a point of conflict from which a new initiative may arise?

More recently we have seen this renewed interest in workers' co-operatives grow into a national, but loose, federation. With this growing interest comes not only more co-operatives but also more support organisations who are being funded ostensibly to support co-operative development, but more correctly this support is provided to create jobs. In one sense this is the same thing, but conversely, they are very different; co-operatives can provide jobs, but not necessarily more easily than private firms. Mixing job creation and co-operative development together only confuses the real issues by engendering an artificial criteria based on the numbers of jobs created rather than looking at things like, for example, the quality of jobs, though no one would deny the important contribution the various support agencies are making in helping develop more workers' co-operatives; this is truly of benefit.

Looking through the history of productive co-operatives though, one cannot help but be cautious of 'professional' help. The experience of the last century is a cautionary tale. In many cases when financial or management assistance was provided, it resulted in denying the co-operative of social content and workers control: beware of wise people offering free gifts. So often the insistence on 'strong management' is part and parcel of working within a capitalist ethic and it goes without saying that in order to exercise strong management, as we know it, there must be a corresponding lessening of workers control, and furthermore to fully realise this there must also be some element of removing ownership away from worker collective ownership to share holding management as has happened so often in the past. Control is not a quantifiable 'thing' to be given away by

professionals, it is a perceived confidence that has to be developed in practical terms by people who will have to take control, in proportion to their ability. To argue that it is essential to maintain present management systems because enterprises cannot be managed any other way is to misunderstand what workers' control means. Management as we know it will not only change under workers' control; it will disappear.

What workers' co-operatives lack, and have lacked in the past, is not 'strong management', the continuing high level of bankruptcy in British industry bears witness to the failure of 'strong management', this idea of management comes not from those who work in co-operatives but from the same class of people who undermined co-operatives a hundred years ago. What co-operatives need is strong and clear forms of democratic and collective organisation from which the management of the enterprise can spring. Throughout the history of co-operatives and social enterprises there has been conflict about how to establish formal democratic and collective systems. Too often, the need to inspire confidence in bankers, and maintain financial viability, have led to the neglect of social and individual needs which have largely been relegated to the domain of chance or accident.

What has always been lacking is any consensus on the definition of social values which will enable new attitudes and practices to take place. History has shown us that unless those of us who work in social enterprises take the initiative and formalise principles of collective democratic organisation we shall never overcome the conflict between internal and external differences that have constantly reduced social experiments to utopian dreams.

In order to promote co-operatives on a wide scale it has been necessary to be concise and fundamental, and thus the definition "a workers' co-operative is an enterprise owned and controlled by its workforce" has been widely used to get the idea across. But, because of the growth of co-operatives over the past few years and the greater variety of such enterprises this definition has become too limiting, to comprehend how co-operatives function internally and how they relate to the wider community requires a deeper understanding of the issues.

Although this initial definition has been adequate in the past year it is now time, we would argue, for co-operatives to establish more detailed definitions.

Collective ownership has become an established and legitimate form of ownership. The question is, is collective ownership any better or socially desirable than private ownership? To answer this question we can only start form a number of general propositions where agreement seems to exist.

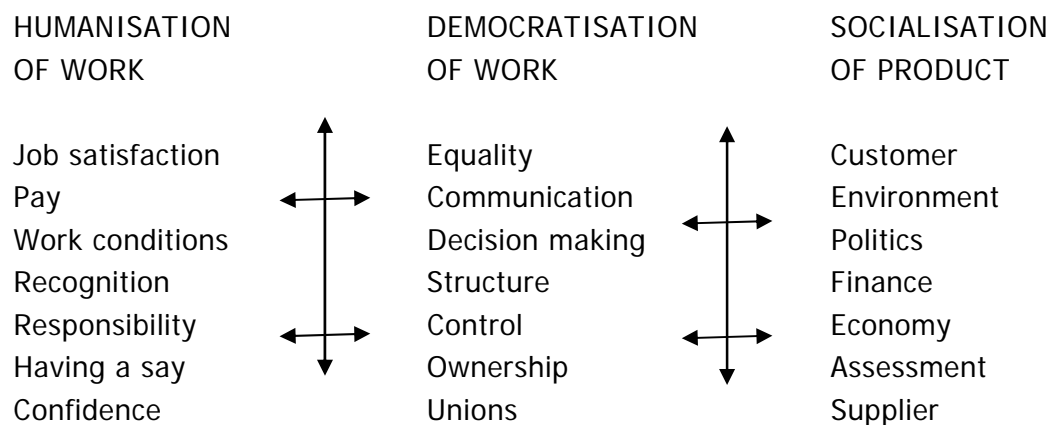
One of the main elements of co-operatives is the desire to humanise work, to connect work to human satisfaction, and to make it responsive to personal needs. This we can call 'The Humanisation of Work'.

A second perceived desire is to make the process of work responsive to democratic control. This we can call the 'Democratisation of Work'.

Thirdly, a major motivation of co-operatives is to produce socially useful products and services. This we can call the 'Socialisation of the Product'.

Under these three headings (Fig. 1) we have listed a number of specific areas that require further clarification. As a group it is worth looking at these lists to discuss your collective attitudes towards defining what each specific area means in relation to your co-operative. Then check these definitions in one list with definitions in another list to see if they are compatible.

(Figure 1)



The problem to overcome in socialising an enterprise is the inconsistency between what is theoretically desirable and what is at any one moment practicable. However, this of course is not static, but is very fluid and flexible and open to change. And should be seen as a process of transition from 'what is' to 'what is planned'.

In this respect the first element of the Social Enterprise Audit model is designed precisely to meet these needs of transition. It is a democratic management tool of organisational assessment and review. It is intended to assist or initiate a more systematic approach to developing internal collective structures that will be efficient and socially responsive. The model would lead to questioning the criteria that we use at the moment and perhaps to forming new values based on social and personal need.

# Towards a Social Economy

During the past 20 years we have witnessed a number of attempts in Britain to shift some of the economic power away from capital towards some form of social control. Each of these attempts has been a form of political persuasion or 'political will' and each time it has met with resistance by both national, and perhaps more importantly, international capital. Capital provides jobs and controls wealth all over the world, while the political will of one nation is contained within a state, so if the political will of one nation puts too great a pressure on any one company owned by international capital that company can close down its production and take its jobs and wealth elsewhere, consequently emasculating the political will.

This failure to shift the economic criteria from capital to social interests has been further complicated in recent times by the resurrection of monetarism as government policy. This has based economic power in capital more firmly than ever before. Increasingly personal, social and everyday decisions are having to be made on a financial cost effective basis. To the extent that we are almost being compelled to become a society of accountants!

Economic theories are unable to cope with the present crisis any better than they were formerly. But today things are more complex and there are more economics involved. The new technologies and the greater worldwide productive capacity adds new dimensions not yet experienced. Above all how much is economic decline related to the failure of our own economic thinking in relation to social and political change. Instead of becoming preoccupied with the complexities of economic and planning machinery, or with the economic model with which we attempt to forecast the future, it might be preferable to first reconsider the basic principles upon which our economic growth cannot alone solve problems of distribution of income and wealth. Experience suggests there is no automatic filtering down effect to the poor as a result of the creation of high economic growth rates. Can the theory of supply and demand really work in the context of a mixed economy and its associated social and political framework, in such a way that most, if not all, social needs in the society can actually be met? To put the question another way; can we satisfy human needs as opposed to 'demand', by allowing market forces to operate in a conventional mixed economic structure? It is necessary to try and evolve concepts of 'social demand', 'social profit' and 'social production'. This being so how can we fit this into a realistic economic framework that will avoid bureaucratic over-centralised planning?

It is no use pretending that we know all the answers to these questions. One reason is because the questions themselves do not appear in the economic model that we are accustomed to using. What we call the 'mixed economy' is arguably

an inefficient and uneasy compromise between opposing ideological tendencies. Perhaps we need a breakthrough towards a new economic synthesis that will be able to respond to both social **and** political realities. Keynesian economic theories, despite the great hopes placed upon them, have failed to resolve the problems of poverty in developed societies. As long as our society upholds the principles of fairness neither fiscal control, nor monetarism, can really tackle inequalities of income and wealth distribution, the root of conflict in our society. Fiscal policy exercised through taxation and public expenditure is in sharp contrast to an economic system where profit maximisation is held in the highest esteem. To rely on fiscal control to redress the inequalities in the free market economy is like painting over rust in the hope it will disappear. It is tackling the problem once it has been created, without going to the heart of the problem. The causes of inequality are primarily associated with the system of ownership. The well known maxim 'ownership is nine tenths of the law' echoes everyday experience. Also, Keynesian economic ideas seem to produce a wide range of secondary problems such as the undermining of traditional or local economic systems and values and the centralisation of economic decision making.

It is also clear that ideas of Milton Friedman and others from Chicago as implemented by governments whether in Chile or in Britain will produce savage repercussions for those countries' social programmes which will be expected to bear the brunt of strict monetary policies intended to bring the whole economy under control in such a way as to re-establish the power of capital over labour. It is fairly clear that monetarism will not resolve the problem of poverty in Western society or in the developing countries as experience shows that it cannot get to grips with the wage price relations on any long-term basis. The fact that in Britain recently monetary policies have managed to reduce manufacturing output but have completely failed to reduce consumer demand will eventually lead to higher prices and higher wage demand; the forerunner to inflation.

One simple reason why monetarism is unable to fully exercise control over the economy (and thereby plan a healthy economy) is because its narrowly defined parameter in money transactions fails to take account of other 'currencies' operating within a national economy. Credit being a widely used 'currency' enables consumer demand to increase even when the supply of money has been reduced. Other important 'currencies' such as education, social interaction, environmental care need also to be taken into account when considering the transactions within a 'social' economy.

Traditional economic theories, whether Keynesian or monetarist, fail to confront the reality that we are edging towards a post-capitalistic society. Post capitalist economies must take into their orbit consideration of non-financial elements such

as the spiritual well-being of human relations, and above all the prospect of unemployment as the norm.

At a time when technological innovation is able to dispense with many of the boring and repetitive jobs – perhaps over 50% of the jobs we do in factories, offices, mines and the like – it is peculiar, if not suspect, to be talking about reviving economic practices that rely solely on market forces and something approximating full employment. The fact that capitalist control over wages and employment conditions works best in a situation of partial unemployment seems, conveniently, to be forgotten when the very people who control capital talk about the merits of full employment. John Galbraith amongst others, has shown clearly that the current economic cycle of ‘producing for production’s sake’ is a bankrupt system spiralling in some unknown direction, independent from social reality, and dragging whole populations relentlessly along with it.

Aside from wage labour as a system (albeit inequitable) of distributing wealth, it had an intrinsic value since it provided the community with necessary goods and services. However, technology and overproduction of durables has robbed much of our work of any value. Modern economics confronts this problem by creating unnecessary products marketed by creating fear and greed in the population – for example the arms industry sustained by defence policies and the cosmetics industry sustained by the advertising media are a source of employment. This solution cannot be a permanent one. Worse still it is not neutral but leads inevitably to the impoverishment of the world’s resources.

A pervasive support for this system continues, encouraged mainly by the media and a lack of clear alternatives, but dissent is increasing as employment decreases. However without a developed methodology of transition to post-capitalism change is difficult to achieve.

With the present system of economics, the cycle has once again shifted to an elliptical path and we are heading down the flat side deep into economic recession. Market place economics have continued to dominate and define industrial and commercial objectives and to gauge their performance in terms of quantifiable financial indicators which fail to take adequate, if any, account of the social and environmental cost of the productive process. As long as those national indicators, expressed in the intrinsically empty value of the market place, continue to serve as a basis for goal setting we shall continue to misuse our productive capabilities and to develop technologies which threaten, rather than support, the very quality of life itself. For the great majority of people working in any one industry the target they are working to achieve (profit maximisation) is not of their making, they did not set that goal, and in some cases the goal may well work against their interests.



Are there alternative ways of guiding the process of production, employment policy, energy use etc.? Surely there must be, but what criteria would be used in decision making and who would make the decisions? New criteria and guidelines for economic and technical performance related directly to individual and community need seem to be essential. The identification of such needs cannot be left to the arbitrary judgement of professional decision makers. Their formulation is not possible without access to decision making by the individuals who will feel the consequences of their neglect. Creating social/economic criteria means understanding individual and collective needs and their dynamic, and formulating working practices which will allow maximum access to decision making.

Obviously a general theory of human and social needs would greatly facilitate the development of social criteria for commercial enterprises, but as with many of these theories the practice is also far from perfect and would be the wrong point from which to start.

One difficulty is establishing a norm of human requirements above food, clothing and shelter. Traditional economics is based on this minimum requirement. For the purpose of establishing a methodology for co-operatives, we might take the Reichian criteria of 'love, work and knowledge' as additional requirements for human happiness above mere survival. The formation of social criteria with emphasis on intercommunication, job satisfaction, education and respect for the environment would accord with Reich. Although this involves choice, preference and conflict it must find its solution within the framework of local community based representation with a maximum of active participation by people in the community and at work.

Policies on output, technology, location and employment levels based on these human requirements, and not in accordance with maximum output, genuine employment and income distribution can become a fundamental objective of economic policies.

To transform economies there must be an agreed basis for proper organisation. This can only be achieved, on the one hand by practical economic expertise, and on the other by socially just environmental and human relations. Economics is a collaborative activity and in developing new dimensions can, and must, embrace both expertise and social consideration. To evolve new economic relations based on justice will require dialogue and access to decision making within a context of shared experience. This will be most fruitful at the local level, where close interrelating communities exist in association with the environment and the national economy. The environment is most likely to be a community's major resource. It not only provides for minimum requirements, but at such close

quarters is easily recognised as needing careful management to preserve its long term use. Every community has local and national interdependence and each community is well placed to plan for their own need in a balanced and appropriate way. To exercise local economies properly one to the minimum requirements must surely be to have some form of community ownership over the means of production and distribution. This will obviously take forms of collective ownership, workers' co-operatives being one and community co-operative another that immediately comes to mind. Collective ownership is essential for local economies to work: it provides the confidence to make decisions that will enable people to feel part of the collective whole. They can benefit from their major asset – themselves – in a context of mutual trust. And only when ownership has come under collective control can local economies begin to organise around social criteria and community needs knowing that their energies will not be wasted by an external owner undermining their right to control.

Mondragon, a large workers' co-operative in Spain which employs 85,000 people, estimates that 90% of net profit remains within the local community and the result has been tremendous social benefit. From a humble beginning 30 years ago when 6 local unemployed engineers started manufacturing oil fires for the local market, Mondragon, has built up a local economy in which factories, houses, schools, colleges, banks and shops are owned collectively by workers and residents in the community.

Local economies will help break down the secrecy surrounding economic activities such as wages and profits; at present every time higher wages are called for all the facts and percentages become public information but when it comes to profit margins we have little information about the policy or percentages being demanded to make an enterprise viable.

A number of different 'currencies' apart from money and goods exist in any one community and by localising more of the economy there will be a greater opportunity to bring these currencies into play so as to allow the fullest contribution of people's abilities. Supply and demand will, in some cases, provide the best mechanism for determining prices and availability, relying mainly on the currency of money, but in other cases where the currency may be in labour or barter locally planned output levels will better serve the community needs.

A wealth creating local economy can be based in a housing estate, a village, and a borough as geographical communities, or it can be defined as a community of interest or culture, or even still it may be based around a network of co-operative enterprises who share collective forms of ownership. An experiment now being undertaken outside Manchester is a community co-operative in a housing estate

where ownership is held collectively by the residents. By using social audit techniques, as a tool for being accountable to the community, separate self-managed workers' co-operatives carry out the different wealth creating businesses. Within the housing estate they hope to generate profits, either by reducing prices or by cash profit that can be used for social welfare activities, eventually enabling the community to gain sufficient control over their local economy to transform local values.

However the local economy is defined it will offer a better opportunity to formulate criteria than larger areas because of the existence of dialogue and shared experience. Dialogue around shared needs and aims can provide the necessary insights into the types of currency in use when conducting a transaction, what criteria is being used to determine profit or loss, and what values are being used in making such evaluation. In socialising economics it is at the local level where a greater number of people can participate in evolving social criteria relevant to real everyday situations.

The external element of the Social Enterprise Audit model is designed to open dialogue with the local community. This would include discussion of the currencies in use, the contribution or cost of the co-operative to the local community and an appreciation of alternative methods of measuring performance.

# Social Responsibility in Accounting

In talking about economics we are mainly concerned with the management of the production and distribution of collective wealth. In conventional terms this usually refers to the good management of money or capital, which stimulates transactions between production and consumption. In capital based economy terms like 'wealth', 'profit and loss', 'overheads', 'variable costs', 'income', 'labour', etc., are all financially defined terms used for accounting purposes. And when you consider that the main, if not only, consideration in determining the success or failure of an enterprise is the result of a legally binding annual financial audit, which uses money as the sole form of measurement, then it is not difficult to see the problem we face when introducing social values and social success or failure. Moreover the question "how will social success pay the bills?" is a fair question and one that we really cannot avoid.

In looking at the area of social accounting we must bear in mind that we are talking about, not doing away with money, but shifting the emphasis towards a balance between capital and social needs.

One way to investigate this balance in a practical way is to take a closer look at three important aspects of social accounting.

The first is to be able to correctly assess the various currencies e.g. the emotional currency of good or bad human relations that are in use, to be clear about the various contributions being made to produce a particular unit of wealth.

The second is the need to make appropriate judgements of the viability of objectives of an enterprise in a balanced way including financial indicators.

The third concerns the way social reporting is conducted, who carries out the audit and how the information is represented.

Before we can attempt to report on the social consequences of the actions of a co-operative we should firstly consider the general responsibility of a business. There is as yet no generally accepted concept of this responsibility although almost everyone agrees that business should be socially responsible.

Two, perhaps extreme views of the concept can be recognised: the hypothesis that a business has only one objective, the maximisation of profit. It can be argued that in achieving this we are being socially responsible: "...there is one and only one social responsibility of business – to use its resources and engage in activities designed to increase its profit, as long as it stays within the rules of the game, which is to say, engage in open and free competition, without deception or

fraud...” (Milton Freedman 1967). The other view is that profit is a means to an end, and not an end in itself. Decision making in business should be concerned with the selection of socially responsible alternatives and the achievement of a level of profitability compatible with social goals.

The acceptance of the latter means identifying the socially responsible alternatives. If a co-operative or social enterprise adopts this approach its members should have a clear view of society’s preferences otherwise what will be regarded as desirable may be a subjective judgement or pure guesswork. Additionally the concept of business and the lack of legislation to require businesses to report to society leaves the individual enterprise to choose to recognise this responsibility or not. The members of a co-operative seeking to implement social responsibility accounting therefore have the problem of introducing an unclear concept which is not widely practised.

As a starting point in seeking to overcome the problems of implementation, the major areas of social responsibility need to be identified and seen in terms of a currency between various contributions of the productive process. There are five areas generally recognised to be in need of social responsibility.

A) *Profit contribution.* The growing recognition of the social objectives does not reduce the importance of profit. A business cannot survive without earning an adequate financial surplus. The adoption of social responsibility in business objectives adds significance to the profit contribution as it draws attention to the circumstances by which it has been earned. Additionally it can be seen that the failure to achieve social objectives may lead to a lack of profitability.

B) *Human Resource Contribution.* Here we are recognising the impact of the activities of a business organisation on the people employed in it – the human resource. At present the cost of the resource is treated as an expense of each accounting period with no attempt to measure its value as is done with other resources used in business. The human resource contribution is likely to be a major consideration for co-ops particularly where a co-operative seeks to practice “true” co-operative principles in such areas as decision making, rates of pay, personal development etc.

The contribution of the organisation should be considered under a number of areas such as:

- i) recruitment
- ii) training, experience, job rotation, skills, knowledge
- iii) wage/salary levels and benefits
- iv) employee self realisation

- v) congruence of individual and organisational goals
- vi) mutual trust and confidence
- vii) job security
- viii) job physical environment and safety, occupational health, stress

C) *Public Contribution.* The impact of organisational activities on the public (individuals or groups of individuals outside the organisation) should also be considered. The creation of jobs and the provision of goods and services are themselves important contributions but more specific factors are:

- i) general philanthropy in the form of contributions to charitable, educational and cultural activities
- ii) financial support or the provision of personnel to assist in community projects
- iii) employment policies regarding disadvantaged sections of the community including disabled persons
- iv) taxes paid

D) *Environmental Contribution.* This area requires consideration of the impact on the environment of the use of resources, the production process and the product itself. Consideration should be given to the despoliation of the environment and pollution of air and water and the noise levels of activities as well as the net use of irreplaceable resources and the net production of solid wastes.

E) *Product/Service Contribution.* Here the organisation's contribution in terms of the quality of product or service is considered. Much of this would be regarded as good marketing but here the consideration should take a much wider perspective than what is good marketing policy. Examples of points to consider are:

- i) product utility, life and safety
- ii) product serviceability and back up
- iii) customer satisfaction
- iv) truthfulness in advertising
- v) quality of labelling and packaging
- vi) product need appraisal

The above gives an indication of the scope of information to be considered and the various currencies in use, but clearer definition of objectives of providing this is required. One approach that has been suggested is to identify three objectives:

1. to identify and measure the net contribution of an enterprise (both internal and external elements);
2. to determine whether the actions of an enterprise which affects the relative resource and power status of individuals, communities, social segments and generations are consistent with widely shared social standards;
3. to make available to all user groups relevant information on an enterprise's goals, policies, programmes, performance and contribution

In social accounting viability of an enterprise's performance becomes a key issue; what is viable lives and what is not dies, the question then is what determines viability? As with many terms the original meaning has become obscured by time and use, so it might be useful to recall the actual meaning of viability to see where to start and to understand the implication of being or not being viable. The word means "capable of maintaining a separate existence", and to be "practicable", another way of saying this is to be independent and to have freedom. And here we get into the philosophical discussion of freedom, but as it is relevant to the argument for social accounting it is perhaps worth a definition, by distinguishing between freedom and licence. To be really free is to acknowledge other people's freedom, otherwise freedom is gain at the expense of somebody else's freedom and as such becomes no more than a license to exploit. To maintain a separate existence enterprises should not be in a position to use this freedom at the expense of social and environmental costs. If we want to bring into enterprises a social consciousness then viability has to be broadened to include social as well as financial indicators.

No one disagrees with the general sentiment of work per se being a desired activity; the question is what kind of work. Is there a difference between 'good work' and 'bad work' when nothing counts except that which can be precisely stated, measured, counted or weighed. The quantity of work it is easier to measure than the quality of work. Viability needs to be assessed in terms of good or bad work as well as more or less work. Co-operatives are attempting to practice good work, not so much in what they produce (though that in itself is vital) but more how it's produced, once again we are back to the 'means' rather than the 'end' as a shift in thinking about viability.

As co-operative and social enterprises embrace social as well as profit motivation it is likely that they will never be as profitable in financial terms as private enterprise, but that should not be any reason to render them less viable. Furthermore, social viability when fully understood will more likely prove to be of greater value than high profits.

In introducing new ideas of viability there will be a need to incorporate practicable social objectives in expenditure budgeting.

A brief outline of how they can be incorporated is as follows:

- 1) make an inventory of all activities of the co-operative having a social impact
- 2) analyse the circumstances which give rise to the activities
- 3) evaluate the best possible method of achieving objectives in each field
- 4) assess whether the co-operative can achieve these, or wishes to seek to achieve them, given the constraints upon it and the conflicts arising from other objectives

The planning process should reflect the necessary financial constraints together with social constraints as well as a degree of personal preference from the individuals making up the co-operative.



# Reporting

The Corporate Report (1975) published by the UK accountancy profession and The Trueblood Report (1973) published by the US profession were two of the most important developments in accounting in recent years. Both considered the purpose of accounting and the future direction it should take. Both recognised the wide ranging responsibility of business and accepted that accounting information is not restricted to information which can be quantified in numerical terms (both monetary and non-monetary).

For these conclusions three main approaches to reporting the social activities of a business were drawn up:

- A) Descriptive. This is the most common approach where all social activities are listed. It has the advantage of simplicity and in its most basic form requires no assessment of the worth of contribution. It must therefore be regarded as the least informative.
- B) The Cost Approach. Here the costs incurred in pursuit of social objectives are listed separately from other expenditure. The advantage of this approach, over the descriptive approach, lies in the ability to quantify the contribution made in an easily recognised form – monetary units. The use of monetary units facilitates assessment of the level of commitment to social objectives and comparability between successive years. The main disadvantage lies in the fact that we are measuring only one aspect of social contribution. The expenditure of a business organisation gives little indication of the benefits derived from it. An organisation may be praised for spending large sums on social programmes whilst much of the expenditure could be ineffective.

Reporting the costs incurred in social activities may not be as straightforward as would appear at first sight. Certain expenditure can be easily identified as falling within this domain e.g. contributions to charities and community projects. However, other costs may be hidden e.g. wages and salaries paid to staff who are engaged in assessing social projects or who may spend part of their paid working time involved in a social project. Certain costs may also not appear as expenditure e.g. a co-operative that refrains from aggressive marketing, which may be practised by other firms in the industry concerned, may incur an opportunity cost in the form of lost revenues.

Variations in the presentation of annual financial accounts can assist in the assessment of the costs incurred in social activities. The isolation of social costs under a separate heading in the Revenue Account is one method. The treatment of costs as expenses in arriving at the accounting profit may be inappropriate: the expenses could alternatively be deducted after profit has been arrived at. Co-operatives may also wish to calculate profit before deducting wages. This may be appropriate where a co-operative has a main objective of providing employment. The profit is then seen as the means by which the co-operative can finance this objective in a similar way that profit is the source from which a company declares a dividend to shareholders. The increasingly common value added statement (see later) is a further development of this approach.

- C) **Cost-Benefit Approach.** Under this approach both the costs and benefits of an organisation's activities are measured and reported in monetary terms. The difficulty lies obviously in the measurement of the benefits. The complexity and high cost involved in assessing the benefits makes this an approach which small organisations are unlikely to use. This approach is the most informative of the three but suffers the disadvantage that the measurement of benefits can be criticised as being purely financial in value.

### **Value Added Statements**

The presentation of the results of a business in the form of a value added statement is a welcome development in social responsibility accounting. The majority of large companies in the UK now present a value added statement with their annual accounts. The statement is particularly suitable for co-operatives to present their results rather than in the traditional form of a Revenue Account. The Revenue Account identifies the profit as a means of assessing the return on the investment of capital. The value added statement restates the results by measuring the "return" to the various parties which have contributed to the business. The statement uses only the information which could be contained in a Revenue Account and therefore is open to the criticism that has been levied at the calculation of accounting profit in recent years. However, it is a more useful means of assessing the contribution of an organisation in the social field.

Social responsibility accounting is a far wider concept than financial accounting; therefore the presentation of annual financial accounts made available to the public cannot adequately report the social activities of a business. However, it is possible to adapt the presentation of figures in a more meaningful manner

particularly the expenditure incurred during the year. The balance sheet at the end of the year is also of limited use as social assets and liabilities are omitted as the assets and liabilities included are only those which are based on past events involving exchanges of monetary units.

The third element of the model Social Enterprises Audit involves a direct systematic approach to the planning and implementation of a co-operative's social objectives.

# Social Enterprise Audit for Democratic Organisations

Throughout the history of co-operativism, and within our present economic system, the doctrine of 'dualism' is accepted, the good and evil, that enables capital accumulation to co-exist with social poverty. Workers' Co-operative forms of enterprise are operationally opposed to 'dualism' and are inherently structured so as to create an 'integrated' balance between social and economic needs.

The lesson from the history of co-operative struggles and the prevailing economic system clearly indicates that although co-operatives are a real alternative, they are, and will continue to be, unable to pose a real challenge so long as they operate and attempt to measure their viability in an environment that practices social and economic dualism and is determined by economic criteria alone.

Therefore, my proposition in this paper is that Workers' Co-operatives must develop their own social criteria and assessment procedure in order to fully realise their economic potential to create real alternative forms of organisation and to change the economic imbalance to an integrated social and economic one. Also, it is arguable that Workers' Co-operatives are the only suitable organisation able to rationalise their operation in a consistent and balanced manner with social and economic considerations.

I have identified three separate elements for conducting a social enterprise audit for Workers' Co-operatives, as a procedural arrangement for assessing and evaluating social objectives which can be assessed separately or together. The timing of a social enterprise audit would best be conducted on an annual basis to coincide with the financial audit, as there will be certain overlapping elements, the three separate elements are:

- a. The internal element – to create a regular assessment of the democratic control of the co-operative.
- b. The external element – to identify the costs the co-operative imposes on the community in which it is situated and the way it attempts to alleviate them.
- c. The social objective element – to assess the extent to which a co-operative has fulfilled its own stated objectives.

## **Background to Social Auditing**

In recent years, social pressure groups representing a wide range of interests have sprung up. Their aim has been to organise significant protests aimed at reform of existing corporate practices. Their starting point has been that the

traditional economic and financial measures of business performance have been found wanting. Social Audit Ltd, a consumer pressure group in London, has done some interesting work in seeking out anti-social practice in large corporations. And it has shown that profit stated in money is at best only a rough measure of a company's contributions to society. Government regulations and subsidies or private monopolistic arrangements can distort profits, giving false impressions of a firm's economic position and contribution.

So the profit yardstick, while useful in many instances as a way of telling businesses about their financial performance, is obviously being asked to carry too large a burden of accountability. Not only does it fail to measure such elements as racial and sexual discrimination at work, job inconvenience, and employee morale, but also profits are often calculated by formulas that omit social costs to the general community, such as pollution and ecological damage.

In an attempt to supplement the usual measure of economic performance, efforts have been under way since the mid-1960's to construct systems and values of social accounts or social indicators. Ralph Nader, a consumer rights campaigner in the U.S.A. succinctly described consumer rights as:

1. The right to safety
2. The right to be informed
3. The right to choose
4. The right to be heard

These social indicators are intended to provide ways of estimating an enterprise's social posture as distinct from the income accounts. In spite of formidable technical, attitudinal and political difficulties encountered along the way, some progress has been made.

Some of the different Social Audit techniques that are already in use are briefly outlined below:

1. *Cost or Outlay Approach* measures social contribution in terms of the amount of money expended for social purposes. The advantage of this method is that it is easily measurable; the disadvantage is that it narrows the social objectives to what can be bought and sold.
2. *Human Assessment Approach*, the social audit is measured by "value of the productive capabilities" of the firm's human organisation. Critics of this concept fault this approach on the grounds that it measures social accomplishment in terms that are not meaningful to constituents outside the organisation, like customers and suppliers.

3. *Programme Management* focuses on measuring only those social activities to which an organisation has specifically allocated resources. This is a very pragmatic concept and allows for direct appraisal in particular social programmes. But it omits appraisal in any other area of activity.
4. *The Cost/Benefit Approach* or the balance sheet approach. This tries to quantify values contributed to society (assets) and detriments to society for action taken or not taken (liability) and arrays them in a fashion comparable to the typical financial balance sheet.
5. *Social Performance Audit*. This approach is usually used by lobbying organisations who wish to attract public attention about a negative aspect of a particular business activity, e.g. trading links with South Africa, excessive pollution, minority discrimination policy, etc. This form was first used successfully in Britain during the 'sit in' by ship yard workers on Clydeside in 1971 and provided the impetus for a change of policy by the government of the day. More recently a successful social audit of this nature was conducted by the Social Arts Trust in Dunston, Tyne and Wear where both community residents and community workers ran a series of workshops looking at the performance of various social activities in the area.
6. *Constituency Group Affiliate Audit*. This is a form of identifying different groups who interact with a particular company i.e. suppliers, customers, local community groups etc., by conducting a marketing style survey of their attitudes with regard to the products and service of the company and its activities in general.
7. Government Mandated Audit. This, in a way, is already in practice and is more like a monitoring procedure by special government agencies concerned with specific legislation.

One thing these approaches have in common is they are designed for large organisations who are under pressure from the public to expose certain information and to re-invest some profits in society.

The public pressure for large corporations to adopt social audit programmes inevitably leads to a less than willing attitude from management and this causes difficulty for the auditor who is frequently excluded from certain pieces of important information. This raises the question of how accurate a social report is.

The other approach widely used by large corporations is to hive off a social project separate from the main business in which social audit programmes are freely conducted.

The reality is that social auditing will never be effectively realised until corporations willingly accept the need for one. The evidence to date is that they do not, since most corporate practices, if exposed, would be of a negative social value. The present elaborate social audit systems take a long time to carry out and involve many hundreds of hours of work. Social audits therefore are 'one off' reports not to be repeated if possible, because of the risk of exposure and long term investigation. Most Social Audit programmes are very extensive and complex to meet all the various elements of a Corporation's Social responsibility. This results in the audit being a lengthy document which has taken a long time to prepare. The Social Enterprise Audit model has been designed to be used on a regular basis and therefore is simpler and easier to conduct. The proposed Social Enterprise Audit is intended to be applied on the same basis as a financial audit on a permanent basis.

It is likely that only in co-operative enterprises or 'social enterprises' will the social auditing be willingly accepted since exposure of bad practices will be to the members' benefit.

Co-operatives normally have social objectives as well as financial objectives, for which they are in need of social indicators to help them monitor their social progress and democratic organisation.

The failure of co-operatives to firmly establish alternative forms of organisation is, in my opinion, due to the lack of internal procedures for collectively assessing the situation, all too often co-operatives have tried to change organisational structures in an unsystematic and sometimes chaotic manner, and in doing so have reduced individual members' opinions to subjective, defensive and negative responses. As members have equal rights there has to be clear organisational procedures for participation by all the members, otherwise the members' expectations and the co-operative practice will become inconsistent, confused and inevitably lead to polarisation and internal conflict. This lack of systematic organisation in time has led many co-operatives to bad management and financial decline.

The Social Enterprise Audit is defined here as a built in systematic attempt to identify, analyse, measure (if possible), evaluate and monitor the social function and is complementary to the financial audit.

Each of the elements of the definition requires further clarification:

1. A systematic attempt...Social Enterprise Audit requires an orderly, carefully planned series of studies, carried out on a regular basis, and ideally recorded in a way that allows the build-up of social data base which can be useful for historical comparisons.
2. To identify...Identification, often by means of an inventory or questionnaire of a co-operative's social and commercial activities. The range of social and commercial influences can be and usually is quite extensive. Tracking down these various social and commercial ramifications has the practical object of defining the dimensions and illustrating the complexities of social involvement.
3. Analyse...Analysis of the accumulated social data base to determine more precisely its meaning to the co-operatives follows naturally from the identification process. A variety of analytical procedures may be employed, ranging from conventional statistical analysis through to simple or sophisticated questionnaire attitude-assessment surveys, cost/benefit ratio studies, or the use of experienced social scientists.
4. Measurement (if possible) The measurement of pure social factors is relatively underdeveloped compared with the measurement of social and financial factors. However, the measurement of public opinion, employee morale, or compiling a record of employment policy or accumulating records of environmental pollution – all of these measures are possible and regularly used by business and government.
5. Evaluate...Evaluation of social performance is the core of social auditing, its ultimate justification. Identification, analysis, and measure are the preliminary steps taken in order to enable evaluation of the co-operative's social function. The co-operative requires a goal by which progress can be measured. The more clearly such goals are stated, the easier is the task of evaluating results. Due to the complexity of many social phenomena and the difficulties of segregating social from economic effects, evaluation may also proceed with more confidence where goals are stated in limited rather than general terms, in narrow rather than broad terms, in precise rather than loose terms, and in operational rather than philosophical terms.
6. Monitoring social effect is the follow-up stage of Social Enterprise Auditing. It means conducting regular audits. Continued systematic monitoring of social performance of both the co-operative's overall efforts as well as the internal organisational arrangements keeps alive and operational the co-



operative's original commitments, allows members to change its aims, and provides a structure for educational and information procedures for new members.

### **The Requirements of a Social Enterprise Audit**

Beyond this definition of Social Enterprise Auditing, it is important to identify the special requirements that must be pressed if a co-operative is to engage in Social Enterprise Auditing on a serious basis.

First: The Social Enterprise Audit has to conform to specific norms of some kind. These norms may consist of government standards of social performance, goals or standards established by the co-operative for its activities, or standards of social performance advocated by groups other than the co-operative. Without clearly identified standards the Social Enterprise Audit cannot reveal whether the co-operative's performance is effective or neutral. For practical purposes, the source of such norms is less important than their presence and identification by the co-operative. Obviously active participation in the setting of social norms and specific goals is crucial.

Second: The Social Enterprise Audit has to be undertaken with the purpose and intention of influencing co-operative action, or programmes, or policy in some tangible way. A genuine Social Enterprise Audit is action oriented. It should make democratic decision making more effective about organisational problems that have previously been neglected or given lower priority than other kinds of problems.

The audit may lead to the initiation or the termination of various operations that have social consequences. The audit may lead to a review of co-operative policies dealing with commercial or social objectives. Or it may confirm co-operative policy.

Third: The Social Enterprise Audit has to be audited in an efficient manner. It is suggested here that a mix of internal participation by the entire membership and an experienced social auditor is used.

It may well be a number of years before a co-operative feels confident to expose itself to outside communities, therefore co-operatives may wish to keep the social audit a purely internal affair for the first few years of operation.

# The Social Enterprise Audit: a proposed model

The proposed Social Enterprise Audit is designed for democratic organisations e.g. Workers' Co-operatives, Community Co-operatives and Collectives which have social as well as commercial objectives, which practice open and honest management, and which want to encourage the fullest participation by its members in the control and running of the organisation. Initially it will be most effective for internal use by the co-operative members in setting and achieving objectives, establishing social norms, justifying commercial (economic) activity, and finally in developing a synthesis of social and economic values.

The proposed Social Enterprise Audit procedure is by no means exhaustive. It is in fact a simple technique that any group with no previous experience can perform. As time goes on we would hope groups build on the procedure and perhaps change or alter certain elements.

To provide for the fullest participation by members, the Social Enterprise Audit has been designed to cover three separate but interrelated elements of a democratic organisation. First, the internal element monitors and guides the internal organisation of the co-operative. Second, the external element assesses the social interaction between the co-operative and the wider community. Thirdly, the social objective element is a simple method of auditing the achievements and progress of declared social goals.

The techniques for collecting information and the skills required are varied and important: I suggest a number of data collection techniques. In the first element a questionnaire will be the main source of information. The second element will have to be facilitated by an external social auditor to maintain the necessary balance between 'what is' and 'what is hoped for' as a clear statement. This element will need a written statement of commercial and social activities as a base on which to make an assessment and could take the form of small workshops of members to talk through the relationship between the co-operative and the wider community as a way of involving and educating co-operative members in discovering the truth about the co-operative's interaction with the community. Some forms of community representation may well be desirable and could include: local authority officers, trade unionists, community workers etc. Either as a complement to the workshop discussions, or as an alternative to it, the external social auditor should conduct interviews both with co-operative personnel and community representatives, concerning the relevant issues from which a report is written as the external social audit element.

The third element can be assessed by simply setting the achievement against the stated objectives. Once again, it might be advisable to consult an external social auditor for an unbiased opinion and judgement, or it could be conducted by internal personnel, or a mix of both

## **1 The Internal Element of a Social Audit**

The internal element should relate to the humanisation of work and how the democratic methods reflect the personal needs of the members. We suggest that this should be conducted in the form of a detailed questionnaire which each member of the co-operative must complete. This will not only provide for complete involvement by all members in assessing their democratic processes, but will also encourage dialogue on issues that may not always be apparent in the day-to-day running of the co-operative. The details for the questionnaire will have to vary according to circumstances, though the premise of one vote, one member allows for a general questionnaire on which extra questions, pertinent to a particular co-operative, can be added if required.

The questionnaire should list a number of questions with the answers on a sliding scale, in areas under these headings: Decision Making, Finance, Conditions of Employment, Job Design, Control, with space for further comments and suggestions. Obviously space will be needed for questions particular to the individual co-operative but, all in all the questionnaire should aim to cover the whole range of issues related to the democratic ownership and control of the enterprise.

This questionnaire format will allow each member to voice their opinion without having to be articulate in meetings or fearful of criticism on a contentious point. From the questionnaire a report can be drawn up enumerating the answers showing the actual percentage of those who are happy or unhappy with the current procedures. The comments and suggestions should be given either verbatim or summarised by an independent assessor.

From the internal assessment element of the audit the co-operative can begin to see, on a collective basis, where the current democratic procedures are working well and where they are not, identifying where the attention should be placed in the forthcoming period.

### **QUESTIONNAIRE EXERCISE**

Each co-operative must be careful to draw up the appropriate questions in the appropriate way. Whether or not the individual members state their name, skills, jobs, ages, is up to the co-operative concerned, but below is a suggested general checklist and style of questionnaire as a base from which to start.

This checklist is designed to enable each member to describe more accurately what stance they and the organisation are taking on a range of issues. Each issue is represented on a scale from 1 to 10.

Clearly all the issues involve the members taking some value-based decision about who they are and what they want. There is no intention to analyse the polarities on a judgemental basis (i.e. good-bad). The aim is to arrive at a clear statement of what the members want and where they think the organisation is.

This information when collected together can then be analysed in terms of collective attitudes towards the co-operative's practice. If there is general consensus in certain areas about the difference between where the collective is and where members would like it to be then a clear basis exists for change.

If, on the other hand, there is no consensus, but it is apparent that the current practice is not desirable, then a more detailed questionnaire can be written on the issue. It is important that each member answers the questions from a personal point of view and not what they think others think or what the practice should be.

Under the six headings below co-operatives can extend the questions to meet the particular needs.

As a group, issue each member with a questionnaire and ask them to decide their personal attitude by marking in the suggested manner.

Decide for each extreme:

- 1) Where you organisation is now (mark O)
- 2) Where you would like your organisation to be (mark X)

## RIGHT OF CONTROL

1.      Controlled by minority Democratically controlled

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2.      Authority rests on hierarchy Authority rests on shared sense of commitment

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3.      Large majority experiences powerlessness Present approach achieves consensus

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## DECISION MAKING

1.      Present approach maintains internal conflict Present approach achieves consensus

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2.      All decisions are made by elected representatives All decisions are made by general membership

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3.      Majority rules Consensus rules

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4.      Few decisions are made in meetings All decisions are made in meetings

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5.      Decisions are made without full discussion Too much discussion before decisions are made

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6.      All decisions are carried out in practice Few decisions are carried out in practice

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**SOCIAL ISSUES**

*GENDER*

1. Male dominance Female dominance

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*CLASS*

2. Class divisions apparent and affecting work No class divisions

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*RACE*

3. Strong racist bias in recruitment and development Mixed racial groups at all levels of co-operation

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*AGE*

4. Bias against employing both young and old groups. Balanced mix of age both young  
Opportunity not limited by age

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*EDUCATION & TRAINING*

5. Limited education and training provision Education and training freely available

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6. Clear social objectives Confused social objectives

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7. Satisfied with social objectives Dissatisfied with social objectives

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8. Always achieving social objectives Never achieving objectives

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**JOB DESIGN**

*ORGANISATION OF TASKS*

1. Tasks divided between control (management) and implementation (labour) Tasks integrated to provide 'whole' jobs

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**ACTUAL ACTIVITIES**

2. Monotony & boredom usual in most jobs Variety & interest built in to all jobs

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**SKILL LEVEL**

3. Deskilling through automation present Creativity and high skill levels typical

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**WORK OBJECTIVES**

4. Tasks are meaningless and alienation common Common sense of purpose and meaning

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**ECONOMIC ISSUES**

*OWNERSHIP*

1. Concentrated wealth in private hands Distributed through common or public wealth

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**INCOME**

2. Based on personal power to acquire income Based on personal need for expenditure

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3. Parity wage Differential wage

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4. Wage too low Wage too high

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5. Minimised and treated as variable cost Maximised and treated as fixed cost

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**USE OF PROFITS**

1. For benefit of owners through increased asset value or dividend For fulfilling social objectives internal or external to organisation

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*INVESTMENT POLICY*

2. Maximise the return for capital Maximise social benefit either internally or externally

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*SCALE OF OPERATIONS*

3. Expand with centralised control to dominate market Link to most appropriate size for market needs

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4. Group too big Group too small

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**PRODUCT/OUTPUT ISSUES**

*PURPOSE OF PRODUCT*

1. Product has no social value – may be destructive at worst Product socially useful and necessary

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*QUALITY*

2. Limited by decisions on profitability Excellence of product sought and achieved

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*PRICE*

3. Price maximised through control of market Price related to level which will meet needs

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## **2 The External Element of a Social Enterprise Audit**

The external element of the social enterprise audit is to understand the impact the co-operative has on the local community in which it operates and to look at the influence of the community on the co-operative. We would recommend that the first stage of the external element is to gather together relevant information about the locality. This would include employment levels – major employers and industries – particularly problems e.g. minority groups, pollution and environmental hazards – community needs and the like. This information should be obtainable through the Local Authority, Chamber of Commerce, community organisations, unions etc., then try to assess whether the co-operatives can help, e.g. provide jobs for minority groups, change transport policy, install anti-pollution devices.

To begin with we would recommend keeping the audit to single issues and over a period of time, through the involvement of local residents and members of the co-operative, build up more detail of the co-operative's interaction with the local community. Hopefully what will emerge is clearer definitions of ideas like socially useful production and socially useful work until these ideas can be quantitatively and qualitatively implemented as part of an enterprise's viability. Also it will be able to embrace wider issues like the relationship between employed and unemployed people, paid work and unpaid work, rate costs and benefit. This element of the social audit can become a major activity of a community co-operative, but for workers' co-operatives there may be a desire to restrict the audit to more direct issues.

In the short term the 'good use' of the external social audit will depend on the good will of the co-operative members, but in the long term we suggest that this element of the audit comes under the scrutiny of a local social audit team made up of representatives from the community and members of the co-operatives.

Below is an exercise in helping the co-operative understand its position within the wider community and to become clear of its local contribution and cost. It is important to keep in mind the two way relationship between the external pressure to conform to a set of criteria and the internal aims and business activities of the co-operative which puts pressure on the wider community.

There are two ways of conducting this exercise and I would suggest both ways are used, although it might be sufficient to just use one or the other. The first, is to call small workshops with groups of members (the scale of this operation will depend on the number of members in any one co-operative) to talk through the relationship between the various constituents of the wider community and the co-operative keeping in mind: 1) The contribution the co-operative makes or can

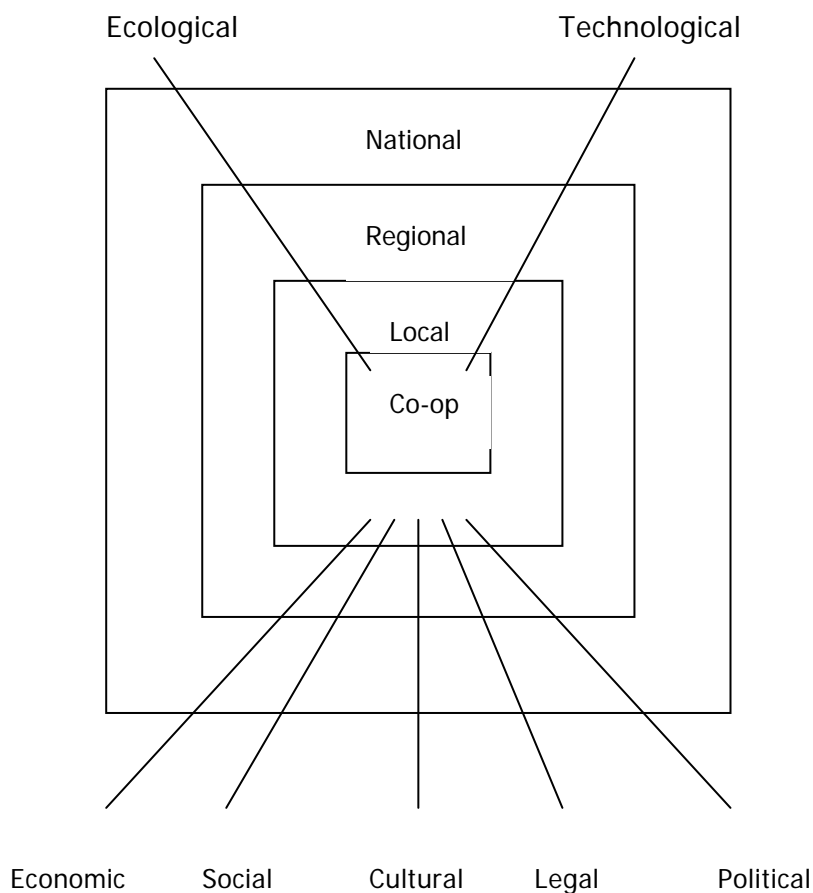
make to the social interest of a wider community, 2) The cost the co-operative imposes on the community both physically and cultural.

This would best be done with an experienced social trainer either from the co-operative or from outside. A summary of each group session should be presented as part of the overall report.

The second is to appoint an experienced social auditor to conduct a full enquiry and write a report that can be built up over the years and used for historical comparisons. The report would be based on interviewing co-operative personnel and community representatives, assessing local conditions e.g. pollution levels, employment situation, extracting policy information with regard to the wider community and identifying positive and negative practices of the co-operative.

As a group exercise use this diagram as a discussion model and talk through the various areas in relation to the co-operative's policy, and the information about the local community by thinking in terms of:

- 1) The contribution the co-operative makes
- 2) The cost the co-operative imposes



This external element of the social enterprise audit is in the short term going to be less value to the co-operative than the other two elements, but in the long term may prove to be very important in defining social norms and criteria and building up social values on products and services.

### **3 The Social Objective Element of a Social Enterprise Audit**

The social objective element depends entirely on the objectives of the co-operative, (see Fig. 1) other than the profit motive, and can be evaluated solely in terms of the already agreed objectives as laid down in the co-operative's constitution.

The co-operative's social objectives will initially stem from the members' own interests and concerns, but as the external audit develops and the community's expectations become clear the social objectives may have to be modified accordingly. Also, the way a co-operative's social objectives are stated in the constitution may have to be changed and re-written in such a way that they can more easily be assessed in quantitative terms.

In the meantime a suggested model is: First, a full statement of the co-operative's social objectives and the priorities attached to specific activities. Second, a description of the co-operative's goals in each priority area and how it proposes to fulfill them. Thirdly a statement indicating the resources available for achieving them. Fourthly, a statement of the accomplishments and/or progress made in achieving each objective and each goal.

Once again this element may need an external analyst to present an independent and unbiased assessment, but to make it an educative activity within which the co-operative membership can act then the social audit must be conducted in full consultation with all the co-operative members.

Far too often groups do not allow themselves enough time for the purpose of deciding on future goals. Even if time is devoted to this end, then often the discussion swings from the realistic to the unrealistic. The main problem is a simple one; some of the aims are achievable immediately, others are long term.

A possible method of solving this is by Horizon Planning which simply involves separating short term and long term objectives.

#### **Exercise**

I would recommend that at least once a year, if not every 3 or 6 months to begin with, the social objectives as laid out in the co-operative's constitution are fully reviewed and assessed in the light of past achievements and the practicality of

future proposals. Encourage your group to hold regular planning meetings. At the meeting attempt to draw up the group's objectives.

- i) For the next 3 months
- ii) For the next 6 months
- iii) For the next 1 year
- iv) For the next 18 months

At subsequent meetings take each horizon (i.e. 3 months, 6 months etc) in turn. Review the progress that has been made towards achieving the objective(s). Recognise the problems behind the objectives that remain unfulfilled. Then try and reset the objectives for that horizon.

After you have been running the planning meetings for some time carry out a periodic review of your progress through the objectives you have been setting.

- i) Are some of your long term objectives being fulfilled?
- ii) How often are the same objectives repeated month after month?
- iii) Are objectives being modified in the light of experience?

To begin with the co-operative will have to accept its own judgement on the criteria they use and the usefulness of certain goals and objectives, but in time norms will become apparent and definitions and criteria can be established.

## **Conclusion**

Taken in its three separate elements this Social Enterprise Audit model is a procedural 'tool' to provide the different interests of a social enterprise with sufficient information on its social functions, to begin to make informed judgements on its activities and to guide the enterprise in the direction of a positive social stance.

Initially it will not be possible to lay down clear criteria for social enterprise behaviour, but put together these three procedural elements could form the basis on which a new form of social viability will emerge. This could become a recognised and legitimate co-operative management tool for influencing organisational and economic thinking.

However, we would suggest that when implementing social audit techniques groups allow themselves perhaps three years before deciding on any form of legal definition. At Beechwood College we have developed a legal constitution which includes social audit clauses that can be used in any co-operative constitution.

A Social Enterprise Audit is a concept for the present and the future; it is not an already established activity, therefore at this stage it must be seen as

experimental. It would be wrong to make it a final judgement on an enterprise's activity. Rather a Social Enterprise Audit should be seen as an aid to achieving social objectives and a statement out of which detailed information is made available to assist the co-operative members to understand their position and how, if necessary, to move towards a more satisfactory and rewarding working practice.